Topic 6DR

NEW MEXICO OIL AND GAS ASSOCIATION

NMED Ozone Rulemaking Hearing

Direct and Rebuttal Testimony of John R. Smitherman
Senior Advisor

20.2.50.125 Small Business Facility

- The negative financial impact of this rule not contained to the smallest oil and gas companies in the state
- The vast majority of operators have high volume producing wells and low volume producing wells in their inventories.
- Each business will have to make a rational decision as to how to respond to the new requirements this rule places on each well and facility based on the economics of that well or facility.

20.2.50.125 Small Business Facility

- If operating income cannot justify the expenditures required to comply with this rule for a specific well or facility, the operator will make the rational decision to cease operating that asset.
- As wells and facilities are shut in and plugged, all the benefits from that production are lost, such as: wages for workers, economic activity in communities, tax revenues for local and state governments, and more. This occurs regardless of how “big” the operating company is.
- NMOGA rejects the whole-company profit concept and relies upon tailoring each section’s applicability and requirements such that effective emissions reduction can occur at a more reasonable cost.

20.2.50.125 Small Business Facility

- While NMOGA suggests removal of this provision, we see merit in IPANM's recommendations. This should not detract from the tailored approach that NMOGA recommends throughout the rule.

Topic 21DR

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Definitions

Various Clarifications

NMOGA has recommended several modifications to definitions that appear to be acceptable to all parties. I will not go over all of these in the interest of time but if the Board has any questions regarding those changes, made mostly for clarity, I welcome your questions.

Definitions

Facilities (See NMOGA exhibit 51)

NMOGA goal: Describe typical facilities to create no gaps, no ambiguities, and no overlaps so that when rule language applies specific requirements to particular facilities, the language of the rule is as clear as possible as to what requirements apply to every facility.

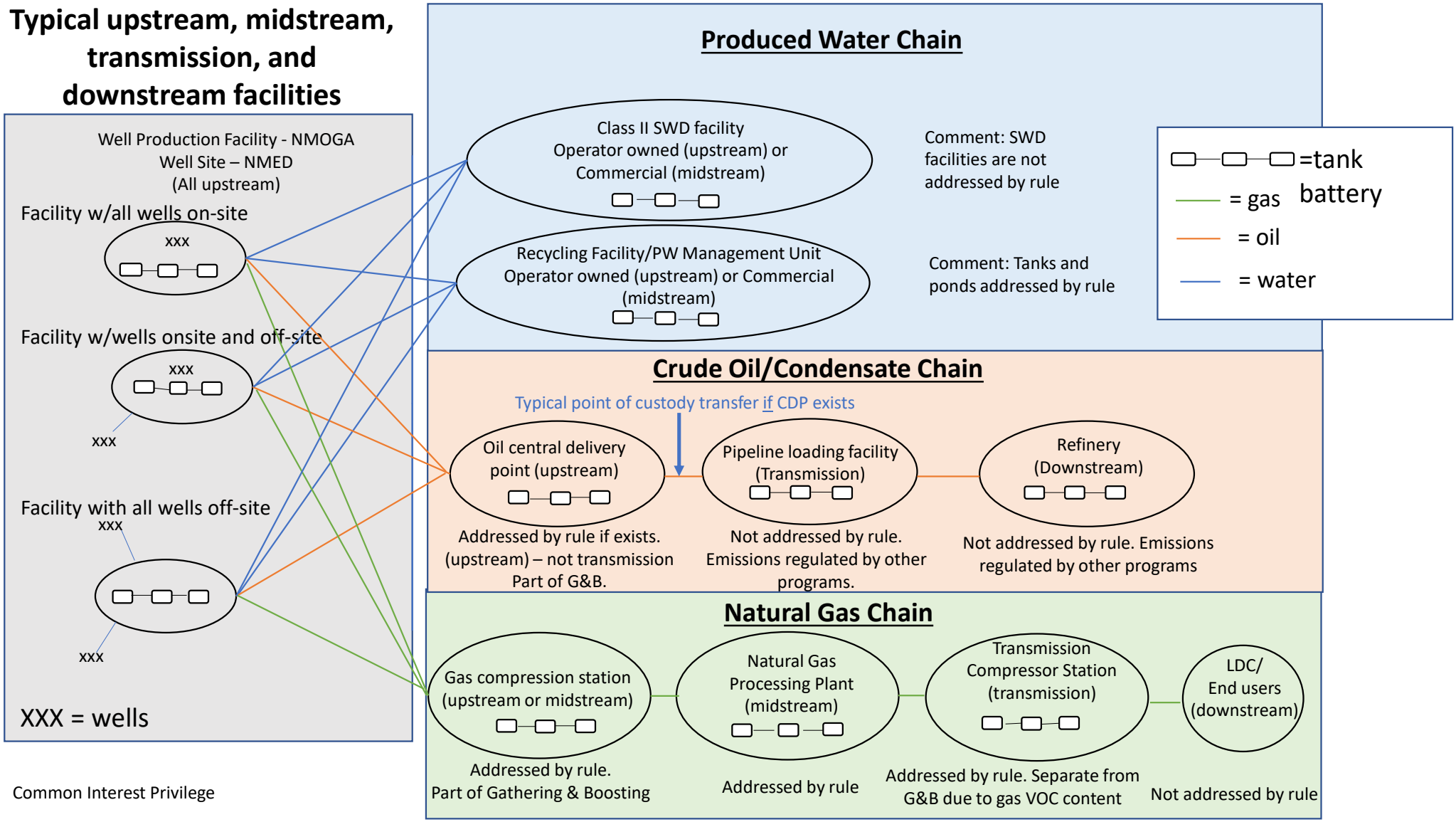
Clarity: Better for NMED, better for regulated community, better for everyone.

Definitions

Tank Battery

NMOGA recommends adding a definition for “tank battery” and defining them as components of other facilities and not separate facility types. The term “tank battery” *should then be removed from the Applicability paragraphs of various sections and from certain tables and texts that include that term (i.e. Pneumatics) to provide clarity.*

Typical upstream, midstream, transmission, and downstream facilities



Common Interest Privilege

Definitions

Tank Battery

Well site NMOGA views Tank Batteries as a component of a Well Site as an example of equipment used for storage. NMED has rejected that proposal based on the idea that "Tank Battery" is a term of common usage and that term would be clearly understood by all. Subsequently, NMED offered no definition of "Tank Battery" but uses the term throughout the rule. This will cause unnecessary confusion. Let's review NMED's definition of Well site.

UU. "Well site" means the equipment directly associated with one or more oil wells or natural gas wells upstream of the natural gas processing plant. A well site may include equipment used for extraction, collection, routing, storage, separation, treating, dehydration, artificial lift, combustion, compression, pumping, metering, monitoring, and product piping. [20.2.50.7 NMAC - N, XX/XX/2021]

Definitions

Tank Battery

- The common usage definition of Tank Battery that I have been familiar with for 40 years is synonymous with a Well Site as defined by NMED but there was disagreement even within our team as to what Tank Battery means. Without a definition, lack of clarity arises in the rule.
- See the Applicability section of Compressor Seals (20.2.50.114) where the provisions of that section apply to "tank batteries" but they do not apply to Well Sites. In that case, what is a "tank battery" to which this rule applies? SWD stations typically have tanks. SWD stations are not impacted by this rule. If an SWD station has tanks, does that make it a tank battery and therefore subject to the rule? This lack of clarity is not necessary.

(2) Reciprocating compressors located at **tank batteries**, gathering and boosting stations, and natural gas processing plants are subject to the requirements of 20.2.50.114 NMAC. Reciprocating compressors located at **well sites** and transmission compressor stations are not subject to the requirements of 20.2.50.114 NMAC.

Definitions

Tank Battery

NMOGA is trying hard to identify facilities so that there are no gaps, not ambiguities, and no overlaps so that these rules will be clear as to where they apply.

This is important! This term shows up in most of the applicability paragraphs in most of the rule sections and shows up in Tables that dictate what requirements apply to certain facilities. This will lead to a lack of clarity that is just not necessary.

I urge the EIB and NMED to adopt NMOGA's definitions of facilities and make the then necessary changes to the applicability details that derive from that change. NMOGA stands ready to assist in this exercise, which benefits everyone.

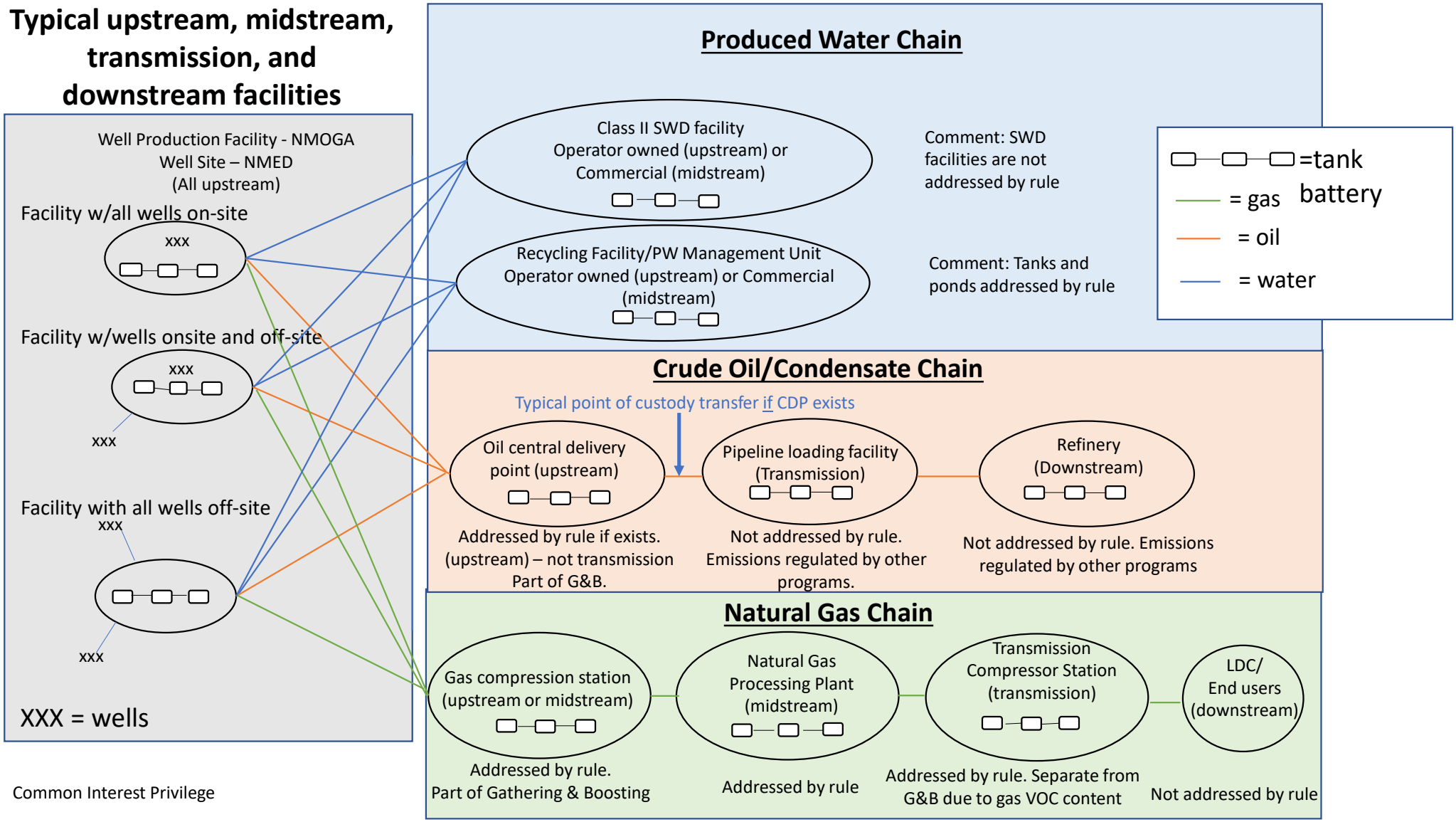
Definitions

Hydrocarbon Liquid

It was unclear in the original version of this rule that this term referred only to crude oil and condensate. Since produced water can, and typically does, contain small amounts of hydrocarbons, NMOGA wanted to clarify the definition. Applying certain requirements on produced water that are appropriate for true hydrocarbon liquids can be infeasible in some cases and impractical in most others.

Topic 22DR

Typical upstream, midstream, transmission, and downstream facilities



Common Interest Privilege

Definitions

Well site

- NMOGA recommended that this rule utilize the term “Well Production Facility” rather than “Well Site” to increase clarity and avoid confusion. After consideration, we now support the use of Well Site and will offer a small but important edit later in this hearing process.

Definitions

Facilities

Gathering and Boosting Station

Q. "Gathering and boosting station" means a facility, including all equipment and compressors, located downstream of a well site that collects or moves natural gas prior to the inlet of a natural gas processing plant; or prior to a natural gas transmission pipeline or transmission compressor station if no gas processing is performed; or collects, moves, or stabilizes crude oil or condensate prior to an oil transmission pipeline or other form of transportation. Gathering and boosting stations may include equipment for liquids separation, natural gas dehydration, and tanks for the storage of water and hydrocarbon liquids. ~~means a permanent combination of equipment that collects or moves natural gas, crude oil, condensate, or produced water between a wellhead site and a midstream oil and natural gas collection or distribution facility, such as a storage vessel battery or compressor station, or into or out of storage.~~

Definitions

Facilities

Gathering and Boosting Station NMOGA supports the latest definition that incorporates not only such facilities that gather and boost pressure of natural gas but also those facilities that gather and boost pressure of crude oil before it is pumped down oil transmission pipelines to market. Sometimes called Central Delivery Points (CDPs), these crude oil facilities, which are not part of the oil transmission system, should be viewed similarly to gas gathering and boosting stations.

Definitions

Facilities

Gathering and Boosting Station Also, some of these crude oil facilities receive oil that has already flashed to atmospheric pressure or is treated at the CDP to lower its vapor pressure and is therefore "stabilized". This is an important fact, and I will touch on another definition later to add clarity.

Definitions

Facilities

Transmission Compressor Station NMOGA supports NMED's latest definition. NMED has added this definition to describe a facility that compresses gas that is suitable for end use. This is typically natural gas that has had heavy hydrocarbon components (including VOCs) stripped from the gas leaving mostly methane. Because this gas has virtually no VOCs, it is right that NMED apply different rules to such facilities. In contrast, compressor stations that handle natural gas prior to processing are included in Gathering and Boosting stations and can be found at Well Production Facilities. A compressor will naturally fall in one of these three separate facility categories.

Definitions

Facilities

<u>Natural Gas Compressor Station (Site per NMOGA)</u> NMOGA supports NMED's deletion of this definition. This is not needed, not advisable, and would have caused confusion. By deleting this unnecessary term, the resulting rule is clear without gaps, overlaps or ambiguities.

Applicability

- NMED had included a requirement that only a "qualified professional engineer" could certify calculations of PTE
- In the latest redline, NMED has also allowed other qualified persons certify such calculations. NMOGA agrees.
  - Registered professional engineers (PEs) are highly qualified, usually in a narrow field
  - Few skilled at such PTE calcs
  - Other persons are adequate (indeed better than some PEs to perform this task
  - Not required by NM statute
  - Avoids an unnecessary human resource bottleneck

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Topic 23DR

20.2.50.112 General Provisions & “Construction”

Construction

Original NMED language deemed “relocation” of a stationary source to be considered “construction”.

If moving a compressor puts it under “new” compressor emissions limits, operators will be reluctant to move compressors to optimize operations. Over time, gas throughput rates change. If operators are faced with an extraordinarily high cost of replacement with a new machine that can meet the new engine standards, they may choose to leave the existing unit in place. This will lead to non-ideally sized compressors which are inefficient from an emissions perspective.

Further, operators will not perform major maintenance in a shop setting through an in-kind swap. This will lead to more downtime and a less effective in-field major maintenance.

Including relocation in Construction disincentivizes some good operating practices.

20.2.50.112 General Provisions & "Construction"

Construction

- NMED current language allows for like-kind replacements and allows for relocations of existing sources (i.e. compressors) as discussed. This is a reasonable provision which is a good example of the balance that NMOGA seeks.
- Pneumatic Devices. Without this language, an operator faced with replacing a single, emitting, natural gas driven pneumatic device at a site where the site has not been converted to non-emitting yet would force the unscheduled replacement of all pneumatic devices to be non-emitting. This is because when facilities are converted to non-emitting, typically all devices are converted so that a single, large air compression/ dehydration system can be installed and integrated into the entire facility. Trying to create an air system for a single pneumatic device is not feasibly practical. To not allow like-kind replacement would be unreasonably burdensome.

20.2.50.112 General Provisions & "Construction"

EMT

- The original proposal for this Part from NMED included an extremely complex and overly burdensome requirement to install a system where every source would be tagged with a QR code or RFID and every field operations related to that source would require a tag scan and activity report that would be captured in a database system for archive, reporting, and audit.
- NMOGA thanks NMED for removing this very expensive and difficult requirement.
- As supported by NMOGA, this Part includes a requirement for operators to be able to produce a Compliance Database Report (CDR) for sources as outlined in each relevant section. Even this is a substantial task that will require many months to accomplish but Industry stands ready to put this tool in place.

Topic 25DR

20.2.50.114 Compressor Seals

NMED has recognized that collecting emissions from compressor seals under negative pressure is not advisable. NMOGA supports allowing the options of replacing seals at prescribed intervals or collecting and routing such emissions for destruction. Using negative pressure in such a collection process invites introducing air into the mixture sent to a destruction device and is a safety hazard.